

Message Text

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ACTION EUR-12

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TO SECSTATE WASHDC IMMEDIATE 1211

AMCONSUL MONTREAL IMMEDIATE

AMCONSUL TORONTO IMMEDIATE

AMCONSUL VANCOUVER IMMEDIATE

AMCONSUL CALGARY IMMEDIATE

AMCONSUL HALIFAX IMMEDIATE

AMCONSUL QUEBEC IMMEDIATE

AMCONSUL WINNIPEG IMMEDIATE

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TELEXED TO ALL CONSULATES EXCEPT MONTREAL

E.O. 11652: N/A

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SUBJ: INFORMATION RELEASE RE AMBASSADOR ENDERS

OTTAWA--SEPTEMBER 29, 1976-- IN A SERIES OF TELEVISION INTER-
VIEWS AND A SPEECH SEPTEMBER 28, MR. MEL HURTIG REPEATEDLY
CHARGED THAT THOMAS ENDERS, UNITED STATES AMBASSADOR TO CANADA,
HAD "LIED TO THE CANADIAN PEOPLE" BY
STATING THAT U.S. INVESTMENT IN CANADA IS DRYING UP, WHEN IN FACT
IT REACHED RECORD LEVELS IN THE FIRST HALF OF 1976.

MR. HURTIG'S CHARGES ARE IN ERROR.

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THE FACTS ARE AS FOLLOWS:

1. MR. ENDERS SAID IN A SPEECH IN TORONTO ON APRIL 29, 1976, THAT U.S. DIRECT INVESTMENT APPEARS TO BE DRYING UP IN CANADA (SEE TEXT ATTACHED FOR FULL QUOTES).

2. STATISTICS CANADA GIVES THE FOLLOWING FIGURES FOR U.S. DIRECT INVESTMENT IN CANADA:

1974 INFLOW DOLS 615 MILLION

1975 INFLOW DOLS 535 MILLION

1976 (1ST HALF) OUTFLOW DOLS 43 MILLION

3. THUS, FAR FROM REACHING RECORD LEVELS OF INFLOW THIS YEAR THERE WAS FOR THE FIRST TIME IN MANY YEARS A SIGNIFICANT NET OUTFLOW OF DIRECT INVESTMENT BY U.S. FIRMS. PRELIMINARY RETURNS SUGGEST THAT THE TREND MAY BE MORE MARKED IN THE SECOND HALF OF THE YEAR.

4. MR. HURTIG APPEARS TO HAVE MIXED UP CANADIAN BORROWING IN THE U.S. WITH DIRECT INVESTMENT. CANADIANS HAVE BEEN BORROWING IN THE U. S. AT RECORD LEVELS. ACCORDING TO STATISTICS CANADA CANADIAN LONG-TERM BORROWING IN THE UNITED STATES TOTALLED

1974 DOLS 1,816 MILLION

1975 DOLS 3,453 MILLION

1976 (1ST HALF) DOLS 2,920 MILLION

5. DIRECT INVESTMENT AND BORROWING HAVE QUITE DIFFERENT EFFECTS AND POLICY IMPLICATIONS. DIRECT INVESTMENT GENERALLY CREATES PERMANENT NEW ENTERPRISE AND JOBS, BUT UNDER FOREIGN OWNERSHIP. BORROWING GIVES YOU CASH, BUT WITH AN OBLIGATION TO REPAY IN A FIXED TIME WITH INTEREST.

6. IT IS IMPORTANT ALSO NOT TO JUMP AT CONCLUSIONS IN THE FIGURES. IN HIS TORONTO SPEECH MR. ENDERS SAID:
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"I LEAVE TO YOU WHETHER THIS DRYING UP OF DIRECT INVESTMENT FROM THE STATES IS GOOD OR BAD. IT IS COSTING YOU SOME ENTREPRENEURSHIP, ADVANCED TECHNOLOGY AND CAPITAL YOU WOULD OTHERWISE RECEIVE. ON THE OTHER HAND, IT RESPONDS TO THE DESIRE OF THOSE WHO WOULD WISH TO SEE THE ROLE OF U.S. ENTERPRISE IN THE CANADIAN ECONOMY DIMINISH.

" FROM A U.S. POINT OF VIEW, THERE ARE THREE THINGS TO BE SAID ABOUT THE NEW TREND.

"FIRST, WE HAVE NO NEED TO EXPORT CAPITAL. WE DON'T HAVE ENOUGH OURSELVES TO MEET OUR NEEDS FOR EXPANSION, ENERGY INVULNERABILITY, AND THE ENVIRONMENT.

" SECOND, WE WOULD BE CONCERNED, AS I KNOW YOU WOULD BE, IF OUR INVESTMENT RELATION WERE MARKED BY DISPUTES AND MISUNDERSTANDINGS.

"THIRD, INVESTMENT IS OF SUCH IMPORTANCE TO THE FUTURE WELL-BEING OF THE UNITED STATES AND CANADA THAT A COOPERATIVE APPROACH WOULD SEEM TO BE IN BOTH OUR INTERESTS."

7. WE HAVE NOT SEEN THE TEXT OF MR. HURTIG'S ADDRESS, AND THERE MAY WELL BE MANY OTHER ERRONEOUS CHARGES.

IN A SPEECH TO THE EMPIRE CLUB IN TORONTO ON APRIL 29, 1976, AMBASSADOR ENDERS SAID:

"THE GREAT POST-WAR INFLOW OF U.S. DIRECT INVESTMENT TO CANADA IS CLEARLY OVER. IN THE EARLY 1960'S SOME DOLS 1 BILLION A YEAR CAME IN. NOW FOR A NUMBER OF YEARS INFLOWS (IF YOU ALLOW FOR PRICE INCREASE) ARE LESS THAN HALF AS BIG.

WHAT ACCOUNTS FOR THE CHANGE?

- THE EFFORT OF U.S. MANUFACTURERS (AND THEY ACCOUNT FOR MOST OF THE INVESTMENT) TO "GET CLOSE TO THE MARKET," TO ESTABLISH BEHIND THE TARIFF WALL, SEEMS LARGE COMPLETE.

- THE NEW FIRMS ONCE ESTABLISHED HAVE GROWN BY PLOWING BACK UNCLASSIFIED

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MUCH OF THEIR EARNINGS.

- IN MANY INDUSTRIES THE UNITED STATES HAS BECOME A MORE ATTRACTIVE PLACE TO LOCATE. OVER THE PAST TEN YEARS, UNIT WAGE COSTS IN MANUFACTURING INCREASED ALMOST AS TWICE AS MUCH HERE AS THERE. CANADIAN COSTS IN MANY SECTORS NOW EXCEED U.S. COSTS. THE TREND CONTINUES.

-OTHER COUNTRIES HAVE PROVED MORE ATTRACTIVE. IN THE EARLY 1960'S ONE U.S. DIRECT INVESTMENT DOLLAR OUT OF THREE CAME TO CANADA. NOW IT'S ONE DOLLAR OUT OF SIX.

-FINALLY, UNCERTAINTY INHIBITED SOME INVESTORS AS CANADA DEBATED ATTITUDES TOWARD FOREIGN INVESTMENT AND ACTED TO CONTROL IT. THE OTHER SIDE OF THESE DEVELOPMENTS IS GROWING CANADIAN DIRECT

INVESTMENT IN THE STATES. TEN YEARS AGO SUCH FLOWS WERE
INSIGNIFICANT, BUT IN THE 1970'S THEY HAVE GREATLY INCREASED.
NOW CANADIANS ARE INVESTING ALMOST AS MUCH IN THE U.S. AS
AMERICANS ARE IN CANADA. LIKE U.S. FIRMS BEFORE THEM, LARGE
CANADIAN ENTERPRISES ARE TRYING TO GET CLOSE TO THE MARKET.
AND THEY OFTEN BRING ADVANCED TECHNOLOGY WITH THEM."
ENDERS

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